Year End Forecast Update

Fiscal 2001-2002
Released September 7, 2001

Honourable Neil J. LeBlanc, Minister of Finance

Higher than anticipated costs, primarily in education and wage settlements, have caused the Department of Finance to revise the deficit projection for fiscal 2001-2002. The deficit is now forecast to be $97.5 million, an increase of $6.8 million over the deficit budgeted in March.

Restructuring costs, which include funding for wage increases, are forecast to be $6.7 million higher than the $53.7 million budgeted. Education and universities costs are now forecast to be $1.1 billion, or $10.4 million higher than in the March budget. Aside from these two areas and a forecast over-expenditure in the Petroleum Directorate, department expenses are either on track or are forecast to be less than budgeted.

Program spending increases are partially offset by a forecast increase in revenues of $5.0 million and lower than budgeted net debt servicing costs of $901.4 million.

Offshore energy is the main driver of Nova Scotia's economic performance in 2001 and provides a strong counterforce against effects of the slowdown in the United States and Canadian economies. The increase in the production of natural gas toward capacity operations is the chief source of the large gain in the province's merchandise export sales performance over the first five months of the year; new offshore-related contracts for fabrication work on a deep-water drilling rig and scheduled fall commencement of construction of two new supply vessels augment capital spending; and offshore exploration is expected to accelerate in the second half of the year. Additional stimulus to job creation and economic growth will result from the establishment of recently announced new call centres.

2001-2002 FISCAL SUMMARY *($ thousands)*	**Budget**	**Forecast**	**Per Cent (%) Increase (Decrease) from Budget**
Consolidated Fund			
Revenue	**5,134,771**	**5,139,771**	**0.10 %**
Net Program Expenses *			
Health	1,819,031	1,818,817	(0.01) %
Education and Universities	1,089,669	1,100,078	0.96 %
Community Services	626,508	626,508	---
Other Net Program Expenses	735,759	738,163	0.33 %
Restructuring Costs	53,652	60,390	12.56 %
Total - Net Program Expenses	4,324,619	4,343,956	0.45 %
Net Debt Servicing Costs	908,857	901,357	(0.83)
Total Expenses	**5,233,476**	**5,245,313**	**0.23 %**
	(98,705)	**(105,542)**	
Net Income (Losses) for Government Business Enterprises			
Other Enterprises	8,000	8,000	
	8,000	**8,000**	
Provincial Surplus (Deficit)	**(90,705)**	**(97,542)**	**7.54 %**

OVERVIEW 2001-2002 (continued)

A U.S. economic slowdown had been expected to weaken performance in Nova Scotia's manufacturing sector and non-energy exports in 2001. Exports sales for non-energy products, however, remain positive with an increase of 2.4 per cent for the first five months of 2001.

Consequently, the budget's economic outlook for real gross domestic product (GDP) growth for 2001 continues to remain in tact. The Department of Finance's latest survey of private sector forecasts indicates an average GDP growth rate of 2.2 per cent expected for 2001, compared to 2.3 per cent contained in the economic forecast in the budget. This latest survey represents a 0.4 percentage point drop from the average of 2.6 per cent at budget time.

REVENUES

Revenues for 2001-2002 are forecasted to be $5.0 million higher than budgeted. This increase is due to higher than anticipated tobacco revenues with partial offsets due to lower than anticipated Harmonized Sales Tax (HST) revenues.

On April 5, 2001 tobacco taxes were increased by $3.90 per carton of cigarettes. This increase is expected to raise an additional $15.0 million over the 2001-2002 budget estimate.

REVENUE SUMMARY *($ thousands)*	**2001-2002 Budget**	**2001-2002 Forecast**	Increase (Decrease) **from Budget**
Provincial Revenue Sources			
Personal Income Taxes	1,250,795	1,250,795	---
Corporate Income Taxes	200,864	200,864	---
Harmonized Sales Tax	845,724	835,724	(10,000)
Motive Fuel Taxes	215,500	215,500	---
NS Gaming Corporation	170,800	170,800	---
NS Liquor Commission	139,800	139,800	---
Other Provincial Revenues	354,717	369,717	15,000
Total - Provincial Revenue	**3,178,200**	**3,183,200**	**5,000**
Federal Revenue Sources			
Equalization	1,394,000	1,394,000	---
CHST	560,241	560,241	---
Other Federal Sources	2,330	2,330	---
Total - Federal Revenue	**1,956,571**	**1,956,571**	---
Prior Years' Adjustments	---	---	---
Total Revenue	**5,134,771**	**5,139,771**	**5,000**

REVENUES (continued)

HST revenues are expected to be $10.0 million lower than the 2001-2002 budget estimate due to a downward revision made by the federal government in the declared revenue pool. The declared revenue pool is the
national total of GST and HST revenues collected by the Canada Customs and Revenue Agency (formerly Revenue Canada).

NET PROGRAM EXPENSES SUMMARY *($ thousands)*	**2001-2002 Budget**	**2001-2002 Forecast**	Increase (Decrease) **from Budget**
Agriculture and Fisheries	40,885	40,825	(60)
Community Services	626,508	626,508	---
Economic Development	34,708	34,708	---
Education and Universities	1,089,669	1,100,078	10,409
Environment and Labour	27,072	27,024	(48)
Finance	12,867	12,867	---
Health	1,819,031	1,818,817	(214)
Justice	88,883	88,883	---
Natural Resources	53,945	54,535	590
Public Service	104,236	106,378	2,142
Service Nova Scotia and Municipal Relations	100,237	100,237	---
Tourism and Culture	39,457	39,457	---
Transportation and Public Works	233,469	233,249	(220)
Restructuring Costs	53,652	60,390	6,738
Total - Net Program Expenses	**4,324,619**	**4,343,956**	**19,337**

NET PROGRAM EXPENSES

Net program expenses are forecast to be $19.3 million higher than budgeted. The Restructuring Costs budget, which includes funds for expected wage increases, has increased by $6.7 million as a result of the final offer selection process. This process resulted in higher than budgeted wage increases for nurses and other health care workers.

The Department of Education is forecasting an additional $10.4 million in expenses. This increase is due, in large part, to $5.5 million for school renovations, that were originally budgeted as tangible capital asset (TCA) spending but did not actually meet the TCA eligibility requirements. Also, the amortization costs for furniture, equipment and technology in new schools, which is at a higher rate than the amoritization of the building itself, added to the over-expenditure. At the Petroleum Directorate, the Laurentian sub-basin boundary dispute legal process is expected to cost an additional $2.1 million.

DEBT MANAGEMENT AND BORROWING PROGRAM

Lower short-term interest rates and a stronger than expected Canadian dollar have resulted in the forecast for net debt servicing costs being reduced to $901.4 million, which is $7.4 million less than budgeted.

The Province's borrowing requirements for fiscal 2001-2002 have increased $95.0 million from budget to $1.15 billion due to refinancing of medium term notes. To date this fiscal year, the province has raised $775.0 million of its planned borrowing through a 10-year domestic (ie, sold within Canada) bond issue of $350.0 million, a 30-year $300.0 million domestic issue and $125.0 million in medium term notes.

This document and other financial information is available on the Department of Finance website:

http://www.gov.ns.ca/finance

NOVA SCOTIA

Honourable Neil J. LeBlanc
Minister of Finance

November 23, 2001

Fiscal 2001-2002 Forecast Update

Overview

Reduced program expenses and lower debt servicing costs are offsetting a decrease in revenues, resulting in a new deficit projection of $98.3 million from the Department of Finance for the 2001-2002 fiscal year. This is a $0.8 million increase from the September 7th forecast, and an $7.6 million increase over the deficit budgeted in March.

The North American economic slowdown is causing lower projected federal transfers to the province. The impact to Nova Scotia is a revenue decline of $66.5 million. The federal cap on Equalization, imposed on transfers in 2000, accounts for $20 million of the total federal decline in revenue.

2001-2002 FISCAL SUMMARY *($ thousands)*	**Budget**	**Forecast September 7th**	**Forecast November 15th**	**Per Cent (%) Increase (Decrease) Nov 15th from Budget**
Consolidated Fund				
Revenue	**5,134,771**	**5,139,771**	**5,109,415**	**(0.49) %**
Net Program Expenses				
Health	1,819,031	1,818,817	1,809,886	(0.50) %
Education and Universities	1,089,669	1,100,078	1,096,826	0.66 %
Community Services	626,508	626,508	636,496	1.59 %
Other Net Program Expenses	735,759	738,163	736,618	0.12 %
Restructuring Costs	53,652	60,390	60,390	12.56 %
Total - Net Program Expenses	4,324,619	4,343,956	4,340,216	0.36 %
Net Debt Servicing Costs	908,857	901,357	866,392	(4.67) %
Total Expenses	**5,233,476**	**5,245,313**	**5,206,608**	**(0.51) %**
	(98,705)	**(105,542)**	**(97,193)**	
Consolidation and Accounting Adjustments for Government Service Organizations				
Health Authorities Operations	---	---	(9,100)	
	---	---	**(9,100)**	
Net Income (Losses) for Government Business Enterprises				
Other Enterprises	8,000	8,000	8,000	
	8,000	**8,000**	**8,000**	
Provincial Surplus (Deficit)	**(90,705)**	**(97,542)**	**(98,293)**	**8.37 %**

Overview (continued)

Despite continued growth in provincial own-source revenues, total revenues are now forecast to decline by $25.4 million from Budget. With the spending restrictions announced October 30, 2001, Net Program Expenses have declined by $3.7 million from the September 7th forecast. Net Debt Servicing costs decreased by $42.5 million as a result of a revised forecast for interest gains associated with pensions and lower short-term interest rates.

Revenues

A significant downward revision in federal Equalization payments is causing the Department of Finance to project total revenues to decline by $25.4 million from Budget. The $59.0 million drop in Equalization, $2.2 million drop in Canada Health and Social Transfer (CHST) and $5.3 million negative Prior Years' Adjustment results in Total Federal Revenues declining by $66.5 million. Nova Scotia calculates that the cap imposed by the federal government on Equalization transfers will negatively affect the Prior Years' Adjustment for 2000-2001 by $20 million.

Strong growth in provincial Personal Income Tax of $26.7 million and previously announced increases in tobacco taxes more than offset declining Harmonized Sales Tax of $29 million. A positive Prior Years' Adjustment resulting from revised 2000 Personal Income Tax data resulted in a further $22.6 million in provincial revenues. The net result is positive growth of provincial revenues of $41.2 million.

REVENUE SUMMARY **Fiscal 2001-2002** *($ thousands)*	**Budget**	**Forecast September 7th**	**Forecast November 15th**	**Increase (Decrease) Nov 15th from Budget**
Provincial Revenue Sources				
Personal Income Taxes	1,250,795	1,250,795	1,277,492	26,697
Corporate Income Taxes	200,864	200,864	201,394	530
Harmonized Sales Tax	845,724	835,724	816,735	(28,989)
Motive Fuel Taxes	215,500	215,500	215,500	---
NS Gaming Corporation	170,800	170,800	170,800	---
NS Liquor Commission	139,800	139,800	139,800	---
Other Provincial Revenues	354,717	369,717	375,099	20,382
Prior Years' Adjustments	---	---	22,569	22,569
Total - Provincial Revenue	**3,178,200**	**3,183,200**	**3,219,389**	**41,189**
Federal Revenue Sources				
Equalization	1,394,000	1,394,000	1,335,000	(59,000)
CHST	560,241	560,241	558,060	(2,181)
Other Federal Sources	2,330	2,330	2,330	---
Prior Years' Adjustments	---	---	(5,364)	(5,364)
Total - Federal Revenue	**1,956,571**	**1,956,571**	**1,890,026**	**(66,545)**
Total Revenue	**5,134,771**	**5,139,771**	**5,109,415**	**(25,356)**

Net Program Expenses

Net Program Expenses are now forecast to end the year $15.6 million over budget, a reduction of $3.7 million since the September 7th forecast. A mid-year spending review resulted in $17.7 million of reductions. These reductions were offset by new pressures of $10 million from Community Services and $1.2 million from Natural Resources. The Community Services over-expenditure is resulting from higher case loads of clients in small options facilities, salary increases for long term care employees and higher case loads for family and children's services. The higher costs for Natural Resources resulted primarily from greater than anticipated costs for forest firefighting.

District Health Authorities are currently forecasting deficits totaling $9.1 million. The cost drivers contributing to these budget pressures are an increased demand for renal dialysis in Cape Breton and Halifax, increases in chemotherapy drugs necessitated by new drug protocols, increased costs for cardiac surgery as a result of moving patients to other provinces and the operation of OR's on weekends to address the backlogs, and an increase in human resource costs, particularly overtime.

The DHA's and Department of Health are working to mitigate these budget pressures and continue to review options.

NET PROGRAM EXPENSES SUMMARY **Fiscal 2001-2002** *($ thousands)*	**Budget**	**Forecast September 7th**	**Forecast November 15th**	Increase (Decrease) **Nov 15th from Budget**
Agriculture and Fisheries	40,885	40,825	40,680	(205)
Community Services	626,508	626,508	636,496	9,988
Economic Development	34,708	34,708	34,535	(173)
Education and Universities	1,089,669	1,100,078	1,096,826	7,157
Environment and Labour	27,072	27,024	26,553	(519)
Finance	12,867	12,867	12,717	(150)
Health	1,819,031	1,818,817	1,809,886	(9,145)
Justice	88,883	88,883	88,438	(445)
Natural Resources	53,945	54,535	55,719	1,774
Public Service	104,236	106,378	106,957	2,721
Service Nova Scotia and Municipal Relations	100,237	100,237	99,728	(509)
Tourism and Culture	39,457	39,457	39,257	(200)
Transportation and Public Works	233,469	233,249	232,034	(1,435)
Restructuring Costs	53,652	60,390	60,390	6,738
Total - Net Program Expenses	**4,324,619**	**4,343,956**	**4,340,216**	**15,597**

Debt Management and Borrowing Program

Net Debt Servicing Costs (DSC) are calculated by subtracting sinking fund earnings from gross debt servicing costs. DSC in 2001-2002 were budgeted at $908.9 million. The DSC forecast is now $866.4 million, down $42.5 million. The recent fall in the Canadian dollar has had a minimal impact on DSC. The current assumption for the Canadian dollar is $1.60 ($0.625 USD/CAD), the Japanese Yen is 123.0 Yen/USD, and Canadian treasury bills is 2.25%.

The decrease is due to lower short-term interest rates and items related to the Province's pension plans. The majority of the savings results from an overall pension plan interest recovery.

The Province's borrowing requirements for 2001-2002 are projected at $1,210 million, up $147 million from the Budget estimate due to the Province exercising call options on $140 million in structured note debt and a $7.6 million increase in the deficit. To date in fiscal 2001-2002, the Province has raised $1,135 million or 93.8 % of 2001-2002 projected borrowing requirements by way of three domestic issues totaling $950 million, and $185 million in Medium Term Notes.

Economic Forecast Update

In the Budget, economic growth in Nova Scotia was forecast to slow to 2.3 percent in 2001. Although U.S. and Canada economic indicators are generally weaker than anticipated, offshore related activities have helped sustain Nova Scotia's growth in 2001. However, based on information to date, economic growth is now expected to be lower than forecast in the Budget. The table below compares the key economic indicators forecast at Budget to data as of November 9th, 2001.

Nova Scotia Indicators 2001 % Change	**Budget Forecast (Feb. 27, 2001)**	**Revised Forecast (Nov. 9, 2001)**
Employment	0.8	0.8
Unemployment Rate (%)	9.5	9.8
Personal Income	3.2	2.8
Consumer Price Index	2.7	2.2
Retail Sales	3.5	2.8
Corporate Profits	6.6	9.9
Exports of Goods and Services	7.8	9.8
Capital Investment	-0.7	-5.7
Housing Starts	-7.5	-16.5